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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 001552

SIPDIS

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USPACOM FOR FPA

E.O. 12958: DECL: 11/30/2013

TAGS: [ECON](#) [PGOV](#) [BM](#)

SUBJECT: BURMA'S COCKROACH ECONOMY

REF: A. RANGOON 1512

[1](#)B. BANGKOK 7434

[1](#)C. RANGOON 1452

[1](#)D. BANGKOK 6604

[1](#)E. RANGOON 1197 AND PREVIOUS

[1](#)F. RANGOON 1164 AND PREVIOUS

[1](#)G. RANGOON 910

[1](#)H. RANGOON 194

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.5 (B,D)

[1](#)1. (C) Summary: Considering the dismal state of the Burmese economy, it is surprising that the Burmese state remains both viable and stable. How is that people are able to quietly endure and survive? How can the ruling military regime be in a stronger position than ever? We see three major factors at work: (1) a well developed informal economy, (2) a sufficient supply of food and of high-value, highly prized natural resources, and (3) wealthy and friendly neighbors who are willing to conduct business as usual despite the economic and political transgressions of the current regime. Though these do not make a good recipe for long-term economic development, they work well enough for immediate survival. End summary.

First the Bad News

[1](#)2. (C) There can be no dispute that over the last several years, Burma's formal economic indicators have been quite negative. Tales are legion, and well documented by the international media, the IMF, the UN, and Embassy Rangoon (ref E, F, G), of misguided economic policies leading to economic woe and hardship for the Burmese people, spiraling inflation and a plummeting kyat, the hollowing out of Burma's formal economy, and departing foreign investors. We continue to be pessimistic about the formal economy's future, and are confident that the next IMF Article IV assessment (due out early next year) will bear us out.

[1](#)3. (C) The UN and international NGOs have also made clear the terrible social conditions in which the Burmese people live; in part due to poor economic policies, in part due to cruel budgetary choices by the GOB. For example, the GOB budgeted only US\$10 million, about one percent of the proposed national budget in FY 2003-04, for health for a population of 50 million (ref H). Unfortunately, we do not anticipate a reverse in these trends anytime soon.

The Cockroach Lives

[1](#)4. (C) However, like the proverbial cockroach in a nuclear blast, the Burmese economy and the country's senior leadership continue to survive and, in the case of the generals and their cronies, thrive in this harsh climate. We see three major reasons for this: (1) a large, well-established, and cushioning informal economy, (2) abundant and highly sought after natural resources, and (3) politically and economically supportive neighboring states. It is these factors which help keep Burma from becoming a classic "failed state" and can explain, in part, the Burmese people's placid acceptance of what the numbers show to be increasingly hard times.

Wanna Buy a Watch?

[1](#)5. (C) The informal economy, though arguably the most important to the people's ability to survive, is the most difficult to quantify. We have heard estimates that the gray and black market, with strong roots in the nation's socialist era (1962-88), is as much as three or four times larger than the formal economy. This sector encompasses a vast array of shops and vendors, cottage industries, unreported farming, gambling and entertainment, narcotics, and financial services. This sector also includes extremely active smuggling networks -- particularly overland with neighboring China, Thailand, and Bangladesh, and with Malaysia by sea via Burma's southern port of Kawthaung. Because of Burma's restrictive and confusing import regulations, most of this smuggling brings in needed consumer goods, pharmaceuticals, diesel fuel, cooking oil, or whatever else is in shortage at the moment. Outflow is in agricultural products and high-value items like hardwoods, gems, and narcotics.

16. (C) People are very comfortable with these informal methods, often more so than with "newfangled contraptions" like private banks. The informal economy is also incredibly elastic -- able to expand and contract easily in response to the country's evolving economic condition.

Trading Teak for Legitimacy

17. (C) The country's abundant resources and fertile soil are crucial to the people's survival, but are also exploited by the ruling regime. Though price inflation and distribution problems have led to widespread malnutrition and even food shortages in parts of the country, few are starving. Despite a lack of reliable data, we believe Burma still produces an annual food surplus. With a weak manufacturing sector, and government jobs paying next to nothing, farming and resource extraction remain the country's largest employers -- both organized and informally. Also, especially in rural areas, people rely on consumption and informal selling of agricultural and forest products to supplement their diets and incomes.

18. (C) Government or military domination, either through monopoly or licensing, of the extraction and sale of high-value natural resources and some farm products provides a steady source of foreign exchange income through export revenue and taxes, profit sharing, leases, and license fees. Solidifying this cash flow is the comparative wealth of neighbors like Thailand and China, who have an appetite for Burmese raw materials. Burma also benefits because some of its resources, such as jade and teak, are considered the highest quality in the world. Thus there is very strong international demand for these products that has proven very resistant to boycott pressure.

19. (C) Two notable cash cows for the government are copper and natural gas. According to IMF statistics, Burma's copper production rose from 472,000 long tons in FY 1997-98 to 24.5 million long tons in FY 2001-02. Copper industry sources tell us deposits, which are focused in one area near Monywa, Sagaing Division, are such that extraction could be increased manifold if financing were available. This mine is in the process of being sold to the Chinese quasi-parastatal CITIC. As for natural gas, the development of two offshore sites by foreign investors, and a ready customer in Thailand, mean about US\$350 million net for the GOB coffers per year beginning in 2003. There is also talk of new South Korean/Indian investment in a potential gas field off the coast of Rakhine State.

Help from Non-Interference Policies

110. (C) The "friendly neighbors" factor dovetails with the other parts of the equation, and is the most vital to the survival of the ruling junta. As reported in ref C, from the Thai perspective trade with Burma is relatively small potatoes. However, for Burma, a consistently reliable Thai market for natural gas and timber -- accounting for the majority of Burma's US\$902 million of exports to Thailand in 2002 -- is very important to the regime's wallet and well being. According to RTG statistics, imports of Burmese products have risen steadily since 1998. These numbers are understated due to an unknown quantity of illegal exports (mostly drugs and timber) to Thailand from border zones under the economic suzerainty of various ethnic ceasefire groups. Burmese people and private businesses rely on consumer goods imported and smuggled from Thailand. Further north, IMF numbers show that Chinese demand for Burmese raw materials, mostly gems and timber, is still relatively small, but has steadily increased since 1998.

111. (C) It's not just China and Thailand's taste for GOB-controlled natural resources that help keep the regime in power and resistant to U.S. sanctions. China has been actively extending trade benefits, seller's credit, and other concessional loans to Burma. Thailand just recently launched, at a summit meeting in Burma, an "Economic Cooperation Strategy" to extend loans, development aid, and trade preferences to Burma, Laos, and Cambodia (refs A and B). India too is joining the game, though bilateral trade is still tiny in comparison to Thailand and China, extending new trade credits and cheap loans (ref D). Public political support from China, India, and Thailand gives the SPDC tremendous confidence and comfort to go alongside economic survivability.

Comment: SPDC Won't Go Down with the Ship

112. (C) The extraction and export by the government and its foreign and local contractors, of raw resources, with no local value added, is wasteful and does little to develop the economy -- which remains 50 percent agricultural. Also, there are already whiffs of resource exhaustion of some precious metals and gems, and a fear of deforestation is clear and present. These trends may accelerate as the regime becomes more desperate for cash in the face of U.S. sanctions that have been effective in cutting off most formal conduits

for the inflow of U.S. dollars. The SPDC is not making policy for long-term, efficient, development of the economy but for self-perpetuation and national stability. Thus its survivability and the sustainability of the Burmese people at subsistence levels are feasible in the short-term, regardless of what the economic numbers say.

Martinez